



January 15, 2003

Helene Nelson, Secretary  
Department of Health and Family Services  
1 W. Wilson Street  
Madison, WI 53702

RE: Budget savings through modifying Medicaid Prior Authorization Process

Dear Secretary Nelson,

Advocates statewide look forward to the opportunity to work with you in insuring the careful utilization of Wisconsin's resources to benefit our residents with disabilities. We appreciate your mission to help kids grow up healthy, safe and successful and especially your desire to protect the most vulnerable kids. An area of particular concern for individuals with disabilities and children with special needs is the Wisconsin Medicaid Prior Authorization (PA) process of therapies, durable medical equipment and personal care services. In July of 2001, the Legislative Audit Bureau published an audit of the Department of Health & Family Services (DHFS) with recommendations for improving this process.

**Return on Investment WI Medicaid PA:**

Consumers, providers and advocates feel strongly that reduction of the frequency of PA represents **an immediate opportunity for a systems improvement that will be both fiscally responsible AND save the state money!** Consider that according to the Audit FY2000 calculations show a less than 4% denial rate for therapies.

Further analysis of Audit report numbers for FY2000:

- 0.6 % of \$16.3 million of Medicaid expenditures were for therapies
- Only 63 % were subject to PA or 0.4% of \$16.3 million.
- After PA, 96 % of these were ultimately approved.
- This resulted in an overall **0.02% Medicaid budget savings through PA denials of only \$486,000.**

**Department Costs in Administering PA at the Current Intensity & Frequency:**

Currently it appears that between 4-6 staff are dedicated to this process. If compensation and benefits are conservatively estimated at \$75,000 each, the DHFS staff costs alone could exceed \$375,000. After EDS allocations, (reported by Tom Alt as \$340,000 annually for the PA process) the result is **a total cost of \$715,000 before administration, overhead, office supplies, and postage.** Just considering PA of therapy services alone, it cost the Medicaid program \$715,000

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to save \$486,000 in FY2000. We have requested estimates from the Department but have NOT received more specific numbers.

The WI Medicaid program is struggling with a projected budgetary increase that is substantially greater than our state can afford. According to Peggy Handrich, PA denial rates in 2001 represented only 3.2% of PA requests. How much is being spent on a review process that essentially approves 96.8% of all therapy services requested? Both the Department and Medicaid providers incur substantial costs in administering this program. Families experience the process as burdensome and intimidating. In addition, after incurring additional cost to the state, providers and families, one in 4 of these denials, if appealed, are overturned or partially overturned.

Prior authorization on services, already deemed medically necessary by this process, should be done annually or semi-annually. **More PAs result when approval periods are shortened through this process. However, more denials DO NOT!** This change alone could reduce the cost of this process by one third to one half with virtually the same results. **Savings resulting could reach one-half million dollars** in salaries and benefits, EDS contract fees, overhead and operational costs such as postage and printing.

We wanted to be sure that our message was clear- **we are not seeking the complete elimination of prior authorization.** Prior authorization offers an opportunity for accountability of providers. **We are seeking its reasonable application at a frequency and intensity level already available under current statute, administrative rule and DHFS Guidelines.** (Please refer to DHFS "*Prior Authorization Guidelines Manual*" *Approval Parameters for Therapy Services* for descriptions of maximum approval periods currently available under Administrative Rule & DHFS Guidelines).

Prior authorization would continue in its compliance and "sentinel" roles. Little or no increases in actual expenditures would result. But perhaps, more important, families, individuals with special needs and the providers who serve them could focus their energy on optimizing the important Medicaid resources made available to them not in meeting the repetitive, costly, overwhelming prior authorization process.

We are also offering this cost-saving measure without taking services away from our most vulnerable Wisconsin citizens, those with disabilities. We are confident that this represents one of many opportunities to optimize Medicaid spending by careful review of the cost-effectiveness of Department administration of scarce dollars. We would welcome the opportunity to discuss this and other information further.

Sincerely,

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Medicaid Project Consultant

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Jennifer Ondrejka, WCDD Executive Director